



**Umhlabuyalingana Local Municipality
Annual Financial Statements
for the year ended 30 June 2020**

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity	Municipality KZN 271
Nature of business and principal activities	The main purposes of the municipality is to engage in local governance activities which include planning and promotions of integrated development planning, economic and environmental development and supplying of services to the community.
Executive committee members	
Mayor	Cllr. NS Mthethwa
Deputy mayor	Cllr. FG Mlambo
Speaker	Cllr. BT Tembe
Grading of local authority	Medium capacity municipality
Accounting Officer	Mrs. NP Gamede
MPAC Chairperson	Cllr. SP Mthethwa
Chief Finance Officer (CFO)	Mr. NPE Myeni
Ordinary Executive members	Cllr. BN Ntsele Cllr. SN Tembe Cllr. MZ Mhlongo Cllr. MD Mathenjwa Cllr. ZM Mhlongo
Registered office	Municipal Building Kwangwanase 3973
Postal address	Private Bag X 901 Kwangwanase 3973
Bankers	First National Bank of South Africa
Attorneys	AP Shangase Associates

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General Information

List of councilors in office

Cllr. KO Tembe
Cllr. TN Magagula
Cllr. LD Tembe
Cllr. M Mthembu
Cllr. SG Nxumalo
Cllr. GS Mthembu
Cllr. DA Tembe
Cllr. MI Mthembu
Cllr. N Vumase
Cllr. JB Gwala
Cllr. NJ Ndabeni
Cllr. NC Mdletshe
Cllr. EG Mhlongo
Cllr. JE Sithole
Cllr. BC Zikhali
Cllr. SM Ndlovu
Cllr. TS Myeni
Cllr. LE Mkhwanazi
Cllr. JG Ngubane
Cllr. SS Gumede
Cllr. BJ Tembe
Cllr. MD Mathenjwa
Cllr. TL Mlambo
Cllr. HK Gumede
Cllr. TS Khumalo
Cllr. TJ Nxumalo
Cllr. ET Nxumalo

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COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
SDL	Skills Development Levy
GRAP	Generally Recognised Accounting Practice
MAP	Municipal Assistant Programme
FMG	Finance Management Grant
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Mhlabuyalingana Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

I would like to bring to your attention the following material matters to your attention:

I certify that the salaries, allowances and benefits of councillors as disclosed in note 27 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Accounting Officer
Mrs. NP Gamede

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019
Assets			
Current Assets			
Inventories	7	189 463	188 694
Receivables from non-exchange transactions	9	10 015 480	15 127 542
Receivables from exchange transactions	8	703 403	600 047
Cash and cash equivalents	10	64 348 251	49 652 113
		75 256 597	65 568 396
Non-Current Assets			
Property, plant and equipment	3	304 999 121	301 221 318
Intangible assets	4	905 431	825 183
		305 904 552	302 046 501
Total Assets		381 161 149	367 614 897
Liabilities			
Current Liabilities			
Operating lease liability	5	11 410	16 064
Payables from exchange transactions	13	13 447 265	12 975 331
VAT payable	14	404 301	3 809 162
Employee benefit obligation	6	31 789	150 033
Unspent conditional grants and receipts	11	17 639 112	4 422 566
Provisions	12	10 200 501	7 765 494
INEP liability	52	4 054 694	5 000 163
		45 789 072	34 138 813
Non-Current Liabilities			
Employee benefit obligation	6	2 486 593	2 223 118
Provisions	12	12 814 185	12 362 138
		15 300 778	14 585 256
Total Liabilities		61 089 850	48 724 069
Net Assets		320 071 299	318 890 828
Accumulated surplus		320 071 299	318 890 828

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Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019
Revenue			
Revenue from exchange transactions			
Service charges	15	624 360	583 201
Licences and permits	18	2 291 920	3 567 590
Commissions received	16	91 728	80 323
Rental income	20	375 615	367 907
Other income	21	1 006 784	559 995
Interest received	22	4 675 157	4 802 233
Total revenue from exchange transactions		9 065 564	9 961 249
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	21 114 011	19 963 019
Interest on Rates - Debtors		678 165	1 549 899
Transfer revenue			
Government grants & subsidies	24	196 467 450	194 914 176
Public contributions and donations	25	-	812 637
Fines, Penalties and Forfeits	17	876 900	1 567 950
Total revenue from non-exchange transactions		219 136 526	218 807 681
Total revenue		228 202 090	228 768 930
Expenditure			
Employee related costs	26	(72 060 486)	(66 559 952)
Remuneration of councillors	27	(13 025 998)	(12 471 999)
Depreciation and amortisation	28	(23 043 787)	(22 750 071)
Impairment loss	29	(1 427 656)	(4 158 190)
Finance costs	30	(2 305 434)	(1 285 741)
Lease rentals on operating lease	19	(2 901 127)	(2 136 576)
Debt Impairment	31	(5 974 581)	(6 446 013)
Inventory consumed	7	(2 747 636)	(2 909 810)
Assets write-off	32	(2 539 836)	(671 628)
Contracted services	33	(46 869 260)	(39 895 875)
Transfers and Subsidies	35	(6 086 458)	(2 872 501)
Covid 19 inventory	7	(2 587 565)	-
Operational cost	34	(45 395 079)	(45 917 434)
Total expenditure		(226 964 903)	(208 075 790)
Actuarial gains/losses	6	(56 716)	(49 695)
Gain or loss on disposal of assets	3	-	(1 067 852)
Surplus for the year		1 180 471	19 575 593

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	299 315 235	299 315 235
Changes in net assets		
Surplus for the year	19 575 593	19 575 593
Total changes	19 575 593	19 575 593
Balance at 01 July 2019	318 890 828	318 890 828
Changes in net assets		
Surplus for the year	1 180 471	1 180 471
Total changes	1 180 471	1 180 471
Balance at 30 June 2020	320 071 299	320 071 299
Note(s)		

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Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Cash receipts from customers and other		27 348 904	22 798 422
Grants		209 684 000	223 011 000
Interest income		4 675 157	4 802 233
Other receipts		2 569 848	4 048 481
		<u>244 277 909</u>	<u>254 660 136</u>
Payments			
Employee costs		(85 086 484)	(79 031 951)
Suppliers		(114 334 272)	(120 345 593)
Interest Paid		(336 772)	(3 384)
		<u>(199 757 528)</u>	<u>(199 380 928)</u>
Net cash flows from operating activities	36	<u>44 520 381</u>	<u>55 279 208</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(29 448 987)	(40 634 933)
Proceeds from sale of assets	3	-	448 422
Purchase of other intangible assets	4	(375 256)	(69 031)
Net cash flows from investing activities		<u>(29 824 243)</u>	<u>(40 255 542)</u>
Net decrease in cash and cash equivalents		14 696 138	15 023 666
Cash and cash equivalents at the beginning of the year		49 652 113	34 628 447
Cash and cash equivalents at the end of the year	10	<u>64 348 251</u>	<u>49 652 113</u>

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Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Refuse Removal	654 902	(30 542)	624 360	624 360	-	
Licences and permits	3 592 040	1 740 130	5 332 170	2 291 920	(3 040 250)	Note 48.1
Commissions received	2 210	27 647	29 857	91 728	61 871	Note 48.2
Rental income	413 353	(37 738)	375 615	375 615	-	
Other income	125 031	1 517 542	1 642 573	1 006 784	(635 789)	Note 48.5
Interest received - Investment	4 035 388	2 808 093	6 843 481	4 675 157	(2 168 324)	Note 48.3
Total revenue from exchange transactions	8 822 924	6 025 132	14 848 056	9 065 564	(5 782 492)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	26 977 968	(1 503 656)	25 474 312	21 114 011	(4 360 301)	
Interest on rate debtors	720 904	201 600	922 504	678 165	(244 339)	Note 48.4
Transfer revenue						
Government grants	209 412 000	2 783 185	212 195 185	196 467 450	(15 727 735)	
Fines	1 149 060	1 901 930	3 050 990	876 900	(2 174 090)	Note 48.6
Total revenue from non-exchange transactions	238 259 932	3 383 059	241 642 991	219 136 526	(22 506 465)	
Total revenue	247 082 856	9 408 191	256 491 047	228 202 090	(28 288 957)	
Expenditure						
Employee related cost	(89 314 429)	16 757 877	(72 556 552)	(72 060 486)	496 066	
Remuneration of councilors	(13 455 753)	-	(13 455 753)	(13 025 998)	429 755	
Depreciation and amortisation	(25 626 819)	2 500 000	(23 126 819)	(23 043 787)	83 032	
Impairment loss	-	(1 438 000)	(1 438 000)	(1 427 656)	10 344	
Finance costs	(105 260)	(2 000 000)	(2 105 260)	(2 305 434)	(200 174)	Note 48.7
Operating lease expense	(605 761)	(2 000 000)	(2 605 761)	(2 901 127)	(295 366)	Note 48.8
Debt Impairment	(11 000 000)	5 138 263	(5 861 737)	(5 974 581)	(112 844)	
Inventory consumed	(1 767 500)	(1 024 000)	(2 791 500)	(2 747 636)	43 864	
Assets Written - Off	-	(2 000 000)	(2 000 000)	(2 539 836)	(539 836)	
Contracted service	(26 585 866)	(20 284 622)	(46 870 488)	(46 869 260)	1 228	
Transfer and Subsidies	(1 300 000)	(4 958 000)	(6 258 000)	(6 086 458)	171 542	Note 48.9
Inventory COVID-19	-	(2 598 775)	(2 598 775)	(2 587 565)	11 210	
Operational cost	(33 846 867)	(11 605 621)	(45 452 488)	(45 395 079)	57 409	
Total expenditure	(203 608 255)	(23 512 878)	(227 121 133)	(226 964 903)	156 230	
Operating surplus	43 474 601	(14 104 687)	29 369 914	1 237 187	(28 132 727)	
Actuarial gains/losses	-	-	-	(56 716)	(56 716)	
Surplus before taxation	43 474 601	(14 104 687)	29 369 914	1 180 471	(28 189 443)	
Surplus for the year excluding capital expenditure	43 474 601	(14 104 687)	29 369 914	1 180 471	(28 189 443)	
Capital Expenditure	(43 378 000)	(1 994 747)	(45 372 747)	(29 824 243)	15 548 504	Note 49.10

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Comparison of Budget and Actual amounts	96 601	(16 099 434)	(16 002 833)	(28 643 772)	(12 640 939)	

Accounting Policies

Figures in Rand	Note(s)	2020	2019
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1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment of property, plant and equipment

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

Provisions, contingent liabilities

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material, the using cost of capital.

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Provisions for Landfill site

The entity has an obligation to rehabilitate its landfill site in terms of its licence stipulations. Provision is made for this obligation based on the size/ extent of the land to be rehabilitated and the rehabilitation period.

Useful lives of property plant and equipment and intangible assets

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. This was performed on an individual basis as well as per service-identifiable categories across all classes.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Municipality has used these criteria to assess if its an agent:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Additional information is disclosed in Note 52.

Post retirement benefit

The cost of long services awards benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

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Accounting Policies

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight-line	20 -30 years
Boreholes	Straight-line	20 years
Mobile clinics	Straight-line	30 years
Furniture and fixtures	Straight-line	7 - 10 years
Motor vehicles	Straight-line	5 years
Office equipment	Straight-line	3 - 7 years
IT equipment	Straight-line	3 years
Creche	Straight-line	30 years
Infrastructure	Straight-line	30 years
Roads and Paving	Straight-line	20 years

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Accounting Policies

1.4 Property, plant and equipment (continued)

Roads and Water	Straight-line	3 - 10 years
Gravel roads	Straight-line	10 years
Community Halls	Straight-line	30 years
Bins and containers	Straight-line	15 years
Libraries	Straight-line	30 years
Fence	Straight-line	5 years
Gates	Straight-line	5 - 10 years
Jojo Tanks	Straight-line	30 years
Park facilities	Straight-line	10 years
Landfill sites	Straight-line	30 years
Leased Office Equipment	Straight-line	5 years
Specialised vehicles	Straight-line	10 years
Special Plant and Equipment	Straight-line	10 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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Accounting Policies

1.5 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight-line	5 years
Other Intangible assets	Straight-line	3 years

The Intangible assets are derecognised:

- on disposal; or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Accounting Policies

1.6 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Umhlalabuyalingana Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Receivables and exchange transactions	Financial asset measured at amortised cost
Receivables and non-exchange transactions	Financial asset measured at amortised cost
VAT Receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Unspent conditional grants	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value plus in case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to acquisition or issue.

Transaction costs on financial instruments at fair value through surplus or loss are recognised in surplus or loss.

Subsequent measurement

Financial instruments at fair value are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or loss for the period.

Financial assets and liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets; (individually for all significant debtors account and collectively for other debtors with similar credit risk characteristics), other than those at fair value, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or loss.

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Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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Accounting Policies

1.8 Inventories

Inventories comprise current assets, consumption or distribution during the ordinary course of business.

Inventories shall be recognised as an asset if, and only if:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the inventories can be measured reliably.

Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their present location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories held for sale in the ordinary course of business are valued at the lower of cost and net realisable value, or where unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Inventories held for consumption, distribution, consumables stores, raw materials, are valued at lower of cost or net replacement cost.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The first-in-first-out method is the basis of allocating costs to inventories, except for water balance which is determined at weighted average cost at the reporting date based on the water volume in the network on hand.

Redundant and slow-moving inventories are identified and written down to the estimated net realisable value, and are recognised as an expense in the period in which the write-down or loss occurs. Inventories identified for write-down/write-off, but for which a council resolution, to authorise the write-down/write-off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Umhlalabuyalingana Local Municipality

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Accounting Policies

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Umhlabuyalingana Local Municipality

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Accounting Policies

1.11 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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Accounting Policies

1.12 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

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Accounting Policies

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest income

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Umhlabuyalingana Local Municipality

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Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Umhlalabuyalingana Local Municipality

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Accounting Policies

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

Umhlabuyalingana Local Municipality

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Accounting Policies

1.17 Accounting by principals and agents (continued)

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.18 Value Added Tax (VAT)

The municipality accounts for VAT on an invoice basis.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure, in relation to a municipality, means-

- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this Act and which has not been condoned in terms of section 170;25
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of the Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Beares Act, 1998 (Act 30 No. 20 of 1998) or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in 35 terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

1.23 Use of an estimate

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.26 Related parties (continued)

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.28 Retention

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.28 Retention (continued)

Retention is also commonly called retainage and is a term referring to the percentage of payment held back from a construction contract.

This is a financial term and the owners of a building, or those who are paying for its work to be done, take the lead in drawing up and enforcing the retention plan. General contractors sometimes have retention plans as well

Retention is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the amount due and retained by the client.

The purpose of retention is to ensure that the contractor properly completes the activities required of them under the contract. Retention can also be applied to nominated sub-contractors, and the main contractor may also apply retention to domestic sub-contractors.

- Often the percentage of retention ranges from 5% to 10% depending on:

- a) The risk of the project, if the risk of failure is high then the percentage will be at maximum 10%.
- b) The experience of the awarded contractor, if the contractor has minimum experience of the work to be executed then the percentage will be maximum 10%.

- Half of the amount retained is released on certification of practical completion ('substantial completion' for Institution of Civil Engineers (ICE) contracts) and the remainder is released upon certification of making good defects (or 'final statement' for design and build contracts such as Joint Contracts Tribunal (JCT)).

- Interim certificates should make clear the amount of retention and a statement should also be prepared showing retention for nominated sub-contractors. The contract may require that retention is kept in a separate bank account and that this is certified to contractors. In this case, the client will generally keep any interest paid on the account.

1.29 Commitments

Items are classified as commitments where the municipality commits itself into future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- Approved and contracted commitments;
- Where the expenditure has been approved and the contract has been awarded at the reporting date; and
- Where disclosure is required by specific GRAP standard.

The municipality will disclose authorised operational and capital expenditure, that which has been approved and contracted for and that which has been approved and not yet contracted for. Outstanding operating lease commitments owing by the municipality and the periods in which payments fall due will also be disclosed.

Commitments are disclosed under note 37 of the annual financial statements.

1.30 Contracted Services

Contracted Services are distinguish between Outsourced Services, Contractors and Professional and Special Services.

Umhlalabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.30 Contracted Services (continued)

Outsourced Services

The municipality should have the capacity and expertise to carry out certain services, but for some reasons not utilising their own staff. The reasons might include temporary incapacity or the outsourcing of services to save costs. In evaluating the classification of outsourced services it should be established whether the services being procured could have been provided by the municipality itself. It could also be that the municipality ordinarily has the expertise to provide the service but temporarily could not do so or to save costs.

Consultants and Professional Services

Consulting services refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis. Therefore a consultant is a professional person appointed by the department to provide technical and specialist advice or to assist with the design and implementation of specific projects/programs. The legal status of this person can be an individual, a partnership or a corporation. The fact that a consultant is defined as a professional person implies that the consultant is professionally qualified. The provision of advice or service is in line with a contractual arrangement. Remuneration is usually based on an hourly fee or a fixed fee for a product/deliverable. This category consists of groups for "Business and Advisory Services", "Infrastructure and Planning", "Laboratory" and "Legal Service".

Contractors

Contractors are required to provide services that are not the core business of the municipality. It is normally not cost effective to maintain these skills within the department. Contractors include costs associated with the use of contracted individuals or businesses on projects or tasks. This does not include amounts payable to contractors in respect of provision of services such as cleaning and security even if a staff element can be identified.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Impact is currently being assessed
IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unable to reliably estimate the impact
GRAP 20: Related parties	01 April 2019	Unable to reliably estimate the impact
GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
GRAP 108: Statutory Receivables	01 April 2019	Future adoption
GRAP 109: Accounting by Principals and Agents	01 April 2019	Impact is currently being assessed
IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

Umhlabuyalingana Local Municipality

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Figures in Rand

3. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	658 992	-	658 992	658 992	-	658 992
Buildings	39 033 094	(13 168 623)	25 864 471	39 033 094	(11 872 797)	27 160 297
Infrastructure assets	392 725 059	(129 262 393)	263 462 666	372 968 276	(110 204 907)	262 763 369
Other property, plant and equipment	24 986 804	(9 973 812)	15 012 992	18 866 086	(8 227 426)	10 638 660
Total	457 403 949	(152 404 828)	304 999 121	431 526 448	(130 305 130)	301 221 318

Reconciliation of property, plant and equipment - 30 June 2020

	Opening balance	Additions	Additions through WIP	Write-offs	Change in accounting estimate	Depreciation	Impairment loss	Total
Land	658 992	-	-	-	-	-	-	658 992
Buildings	27 160 297	-	-	-	-	(1 295 826)	-	25 864 471
Infrastructure assets	262 763 369	-	23 107 830	(2 521 767)	1 045 088	(19 504 198)	(1 427 656)	263 462 666
Other property, plant and equipment	10 638 660	6 341 157	-	(18 069)	-	(1 948 756)	-	15 012 992
	301 221 318	6 341 157	23 107 830	(2 539 836)	1 045 088	(22 748 780)	(1 427 656)	304 999 121

Umhlabuyalingana Local Municipality

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Additions through WIP	Disposals	Transfers received	Transfers	Donated assets	Write offs	Depreciation	Impairment loss	Total
Land	658 992	-	-	-	-	-	-	-	-	-	658 992
Buildings	28 377 509	72 900	-	-	-	-	-	-	(1 290 112)	-	27 160 297
Infrastructure assets	246 995 064	1 390 623	37 577 826	-	25 538 713	(25 538 713)	-	-	(19 041 954)	(4 158 190)	262 763 369
Other property, plant and equipment	12 517 942	1 593 584	-	(1 516 274)	-	-	812 361	(665 279)	(2 103 674)	-	10 638 660
	288 549 507	3 057 107	37 577 826	(1 516 274)	25 538 713	(25 538 713)	812 361	(665 279)	(22 435 740)	(4 158 190)	301 221 318

Pledged as security

There was no property, plant and equipment pledged as security.

Specialised assets

Included in the property, plant and equipment is sanitizer trailer specially purchased to help curb the spread of pandemic COVID-19. The sanitizer trailers is used by the municipality to disinfect office space and other related areas where from time to time is required.

Sanitizer trailers

175 000

-

It is expected that the machinery will be utilised for the duration of the pandemic, and beyond

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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Figures in Rand	2020	2019
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3. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure - Multipurpose Centre	24 042 985	23 584 045
Infrastructure- Community Halls	17 241 246	17 241 246
Infrastructure- Market Stalls	-	2 226 558
Infrastructure- Bridge and Causeway	-	2 691 242
Infrastructure - Roads	28 198 923	9 121 893
Infrastructure - Sportfields	-	320 903
Youth Enterprise	887 971	887 971
	70 371 125	56 073 858

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Manguzi Multipurpose	24 042 985	23 584 045
Manguzi Multipurpose Centre is a multi year project, we have recently appointed the nwe contractor to complete the project that was surrendered by previous contractor. The project is estimated to be completed by 30 June 2021		
Nyamazane Sportfield	-	320 903
Sportfield irrigation is outstanding on the facility.		
KwaMbila Community hall	17 241 246	-
Technical department is reviewing the snack list and awaiting for prictical completion certificate to be issued by project managers		
	41 284 231	23 904 948

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	56 073 858	-	56 073 858
Additions/capital expenditure	-	23 131 239	23 131 239
Transferred to completed items	-	(8 833 971)	(8 833 971)
	56 073 858	14 297 268	70 371 126

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	44 034 745	-	44 034 745
Additions/capital expenditure	-	37 577 826	37 577 826
Transferred to completed items	-	(25 538 713)	(25 538 713)
	44 034 745	12 039 113	56 073 858

Umhlabuyalingana Local Municipality

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Figures in Rand	2020	2019
3. Property, plant and equipment (continued)		
Expenditure incurred to repair and maintain property, plant and equipment		
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted Services - Plumbing	197 000	19 900
Contracted services - G5 Material	1 791 900	341 355
Contracted services - G7 Material	1 807 640	353 800
Contracted - Hiring Excavator	-	375 500
Contracted Service - Hiring of Grader	-	323 390
TLB hire	-	492 824
Tipper truck	-	394 134
Potholes	-	189 900
Contracted Service - Building Renovations	-	405 040
Gate repair	-	54 650
Service Septic Tanks	188 000	26 501
Road Markings	-	130 433
Tree Cutting	705 107	351 700
Aircon Regas	132 600	77 560
Water pump	23 800	36 080
Electrical	23 780	20 777
Contracted Service - Motor Vehicle	3 723 744	3 012 532
Contracted Service - Grass Cutting	-	180 900
Painting	42 800	65 000
Spares machinery	-	59 341
Grader hire	150 000	325 900
Library renovations	-	321 500
Main building renovations	1 589	219 558
Computer repair	77 013	-
Excavator hire	-	244 564
	8 864 973	8 022 839
Repairs and Maintenance		
Employee related cost	322 441	576 759

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Umhlabuyalingana Local Municipality

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4. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 149 093	(1 243 662)	905 431	1 773 838	(948 655)	825 183

Reconciliation of intangible assets - June 2020

	Opening balance	Additions	Amortisation	Total
Computer software	825 183	375 256	(295 008)	905 431

Reconciliation of intangible assets - June 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	1 078 775	69 031	(8 293)	(314 330)	825 183

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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5. Operating lease liability

Current liabilities	(11 410)	(16 064)
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Operating lease payments have been recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments have been recognised as an operating lease liability.

6. Employee benefit obligations

Long Service Awards

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at 30 June 2020 by Independent Actuarial One Pangaea Financial ('OPF'), Fellow of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Opening balance	(2 373 151)	(1 944 212)
Service cost	(348 149)	(312 918)
Interest cost	(210 739)	(180 451)
Expected benefit payment	470 373	114 125
Actuarial (gain)/loss	(56 716)	(49 695)
	(2 518 382)	(2 373 151)

Non-current liabilities	(2 486 593)	(2 223 118)
Current liabilities	(31 789)	(150 033)
	(2 518 382)	(2 373 151)

Assumptions used at the reporting date:

Discount rates used

General Inflation Rate	10.18%	9.17%
Consumer Price Index (CPI)	4.97%	5.29%
Real Rate	5.97%	6.29%
Net discount rate	3.97%	2.71%
	63	63

Members withdrawn from services: (Average for males and females)

Age 20	12,00 %	12,00 %
Age 25	6,60 %	6,60 %
Age 30	5,10 %	5,10 %
Age 35	3,60 %	3,60 %
Age 40	2,60 %	2,60 %
Age 45	1,80 %	1,80 %
Age 50	1,10 %	1,10 %
	-	-

Umhlabuyalingana Local Municipality

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6. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(2 373 151)	(1 944 212)
Service cost	(348 149)	(312 918)
Interest cost	(210 739)	(180 451)
Benefits paid	470 373	114 125
Actuarial loss/(gain)	(56 716)	(49 695)
Net expense recognised in the statement of financial performance	145 231	-
	(2 373 151)	(2 373 151)

Net expense recognised in the statement of financial performance

Current service cost	348 149	312 918
Interest cost	210 739	180 451
Actuarial (gains) losses	56 716	49 695
Settlement	(470 373)	(114 125)
	145 231	428 939

Demographic and Decrement Assumption

The following withdrawal assumptions were applicable over the prior and current valuation periods:

20	12,00 %	12,00 %
25	6,60 %	6,60 %
30	5,10 %	5,10 %
35	3,60 %	3,60 %
40	2,60 %	2,60 %
45	1,80 %	1,80 %
50	1,10 %	1,10 %

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2019 the duration of liabilities was 9.37 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 29 June 2020 is 10.18% per annum, and the yield on inflation linked bonds of a similar term was about 4.49% per annum. This implies an underlying expectation of inflation of 4.97% per annum $([1 + 10.18\% - 0.5\%] / [1 + 4.49\%] - 1)$.

We have assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 5.79% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 3.97% per annum $([1 + 10.18\%] / [1 + 5.97\%] - 1)$.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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Figures in Rand	2020	2019
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6. Employee benefit obligations (continued)

Valuation assumptions

The key assumptions used in the valuation, with the prior year's assumption shown for comparison, are summarised below:

	30 June 2020	30 June 2019
Discount rate	10,18%	9.17%
CPI	4,97%	5.29%
Salary increase rate	5,97%	6.29%
Net Discount Rate	3,97%	2.71%

Valuation Method

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases.

The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

7. Inventories

Opening	188 694	126 206
Inventory purchased	5 335 970	2 972 298
Inventory consumed	(2 747 636)	(2 909 810)
Covid-19 consumables	(2 587 565)	-
	189 463	188 694

Inventory consist of stationery, cleaning materials and consumable materials. Stock take was conducted at 30 June 2020 to determine the quantity and value of inventory at hand.

Inventories was assessed for redundancy and abnormal wastage. No obsolete inventory was discovered.

COVID-19 Inventory

Since the COVID-19 was declared a national disaster, there have been numerous measures put in place to curb its rapid spread and the provision of assistance to those less fortunate. In response to the COVID-19 pandemic municipalities have incurred increased expenditures, namely:-

- Purchase of personal protective equipment such as masks
- Hygiene items such as sanitisers
- Protective clothing
- Fumigation chemicals
- Surgical gloves and wipers

8. Receivables from exchange transactions

Gross balances

Creditors Overpayment	149 865	149 865
Debtor PMU	5 113	9 913
Debtors Refuse	896 630	514 868
Debtors - Rentals	401 840	203 781
Other Debtors	198 010	155 726
	1 651 458	1 034 153

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
8. Receivables from exchange transactions (continued)		
Less: Allowance for impairment		
Refuse debtors	(678 028)	(339 297)
Rentals debtors	(270 027)	(94 809)
	(948 055)	(434 106)
Net balance		
Creditors Overpayment	149 865	149 865
Debtor PMU	5 113	9 913
Debtors - Refuse	218 602	175 571
Debtors - Rentals	131 813	108 972
Other debtors	198 010	155 726
	703 403	600 047
Creditors Overpayment		
> 365 days	-	149 865
Debtors PMU		
Current (0 -30 days)	5 113	9 913
Debtors Refuse		
Current (0 -30 days)	113 931	98 153
31 - 60 days	54 091	38 219
61 - 90 days	38 319	32 581
91 - 120 days	38 319	32 581
121 - 365 days	651 970	313 334
	896 630	514 868
Rental		
Current (0 -30 days)	64 092	60 325
31 - 60 days	28 152	23 710
61 - 90 days	27 875	21 544
91 - 120 days	26 862	15 593
121 - 365 days	254 859	82 609
	401 840	203 781
Other		
Current (0 -30 days)	198 010	155 726
Summary of debtors by customer classification		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(434 106)	(95 543)
Contributions to allowance	(513 949)	(338 563)
	(948 055)	(434 106)

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

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8. Receivables from exchange transactions (continued)		
Consumer debtors past due but not impaired		
Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2020, 260 272 (2019: 220 407) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	95 971	124 643
2 months past due	82 271	47 882
3 months past due	82 249	47 882
9. Receivables from non-exchange transactions		
Gross balances		
Consumer debtors - Rates	47 713 658	51 172 222
Fines	7 112 691	6 475 291
	54 826 349	57 647 513
Less: Allowance for impairment		
Consumer debtors - Rates	(39 923 663)	(38 106 073)
Fines	(4 887 206)	(4 413 898)
	(44 810 869)	(42 519 971)
Net balance		
Consumer debtors - Rates	7 789 995	13 066 149
Fines	2 225 485	2 061 393
	10 015 480	15 127 542
Reconciliation of provision for impairment of receivables from non-exchange transactions:		
Rate Debtors		
Opening balance	(38 106 072)	(32 862 210)
Allowance for impairment - Rate debtors	(1 817 591)	(5 243 862)
	(39 923 663)	(38 106 072)
Traffic fines		
Opening balance	(4 413 898)	(3 719 606)
Allowance for impairment	(473 307)	(694 292)
	(4 887 205)	(4 413 898)
Net balance	(44 810 868)	(42 519 970)
The ageing of amounts past due but not impaired is as follows:		
1 month past due	1 094 970	895 579
2 months past due	543 076	810 799
3 months past due	538 052	789 426
	2 176 098	2 495 804

Receivables from non-exchange transactions past due but not impaired Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired.

At 30 June 2020, R2 176 098 - (2019:R2 495 804) were past due but not impaired.

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
9. Receivables from non-exchange transactions (continued)		
Fines		
Current (0 -30 days)	378 332	344 297
31 - 60 days	280 350	259 679
61 - 90 days	463 540	429 362
91 - 120 days	438 890	406 530
121 - 365 days	5 551 579	5 035 423
	7 112 691	6 475 291
Summary of debtors by customer classification		
Business		
Current (0 -30 days)	987 770	517 666
31 - 60 days	413 626	430 016
61 - 90 days	402 374	347 741
91 - 120 days	401 792	335 271
121 - 365 days	18 017 634	19 244 849
	20 223 196	20 875 543
Less: Allowance for impairment	(17 944 995)	(19 482 421)
	2 278 201	1 393 122
Government and ITB		
Current (0 -30 days)	367 231	760 289
31 - 60 days	181 363	372 375
61 - 90 days	181 363	371 375
91 - 120 days	180 079	371 375
121 - 365 days	24 359 235	27 237 406
	25 269 271	29 112 820
Less: Allowance for impairment	(19 980 717)	(18 387 060)
	5 288 554	10 725 760
Household and Agriculture		
Current (0 -30 days)	121 190	50 308
31 - 60 days	60 595	26 154
61 - 90 days	60 528	26 154
91 - 120 days	38 147	26 154
121 - 365 days	1 940 731	1 055 088
	2 221 191	1 183 858
Less: Allowance for impairment	(1 997 951)	(236 591)
	223 240	947 267
Total		
Current (0 -30 days)	1 476 191	1 328 263
31 - 60 days	655 584	828 545
61 - 90 days	644 265	745 270
91 - 120 days	620 018	732 800
121 - 365 days	44 317 600	47 537 343
	47 713 658	51 172 221
Less: Allowance for impairment	(39 923 663)	(38 106 072)
	7 789 995	13 066 149

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Umhlalabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
10. Cash and cash equivalents (continued)		
Cash on hand	2 000	21
Bank balances	50 391 796	36 528 403
Short-term deposits	6 469 940	6 118 671
Fixed deposit - Long term	7 420 998	6 940 955
Cash in Transit	63 517	64 063
	64 348 251	49 652 113

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
First National Bank - Current Account Hluhluwe - 62025236408	50 766 908	36 620 012	22 304 156	50 391 796	36 528 403	22 304 156
First National Bank - Call Account Hluhluwe - 62266899825	1 348 858	1 347 591	1 352 822	1 348 858	1 341 913	1 352 822
First National Bank - Call Account Hluhluwe - 74275256516	5 063 093	4 721 471	4 393 217	5 063 093	4 721 471	4 393 217
Standard Bank - Call Account Empangeni - 068824491	20 638	19 727	18 941	20 638	19 727	18 941
Nedbank - Call Account Richardsbay - 28702097	36 835	35 044	33 144	36 835	35 044	33 144
First National Bank - Call Account Hluhluwe - 62424086785	516	516	516	516	516	516
First National Bank - Fixed Deposit Account - 74622621601	7 420 998	6 940 955	6 479 688	7 420 998	6 940 955	6 479 688
Total	64 657 846	49 685 316	34 582 484	64 282 734	49 588 029	34 582 484

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

COGTA - Small Town Rehabilitation	162 260	162 260
Arts and Culture	100 000	100 000
Manguzi Road Project	17 307	17 307
Urban Development	907 195	907 195
Manzengwenya Project	7 500	7 500
M A P	251 168	251 168
Phelandaba Development Grant	178 600	178 600
Nhlange Lake Restaurant	5 600	5 600
KwaTembe Concrete Project	86 111	86 111
Mbazwana and Munguzi Hubs	160 000	160 000
MIG	14 300 580	29 336
Finance Mangement Grant	112 598	-
Environmental Grant	-	4
Cogta energy electrification	110 653	591 905
Wall to Wall Scheme	96 800	502 800
Border Development	1 138 240	1 389 280
Sports Ground	4 500	33 500
	17 639 112	4 422 566

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
11. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	4 422 562	3 325 740
Additions during the year	43 667 000	50 335 002
Income recognition during the year	(30 450 450)	(49 238 176)
	17 639 112	4 422 566

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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12. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Interest cost	Utilised during the year	Additions	Total
Skhemelele landfill site	8 792 491	837 959	-	-	9 630 450
Mbazwana landfill site	4 780 845	423 898	-	462 178	5 666 921
Thandizwe landfill site	6 029 722	534 631	-	582 911	7 147 264
Performance bonus	524 574	-	(524 574)	570 051	570 051
	20 127 632	1 796 488	(524 574)	1 615 140	23 014 686

Reconciliation of provisions - 2019

	Opening Balance	Interest cost	Additions	Total
Skhemelele landfill site	6 767 215	473 705	1 551 571	8 792 491
Mbazwana landfill site	3 808 077	357 618	615 150	4 780 845
Thandizwe landfill site	4 803 212	451 037	775 473	6 029 722
Performance bonuses	-	-	524 574	524 574
	15 378 504	1 282 360	3 466 768	20 127 632

Non-current liabilities	12 814 185	12 362 138
Current liabilities	10 200 501	7 765 494
	23 014 686	20 127 632

The current portion is made up of provision for bonuses 2020: (R 570 051) 2019: (R 524 574) and Skhemelele landfill site 2020: (R 9 630 450) 2019: (R 8 792 491).

Performance bonuses

A section 57 bonus provision is also provided for. The bonus is performance based, and is dependant on a performance assessment. The timing of the bonus is uncertain.

Environmental rehabilitation provision

The municipality operates two Landfill sites, which are Thandizwe and Mbazwana.

Skhemelele is in the process of being closed down.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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12. Provisions (continued)

The Municipality estimated rehabilitation cost are R22 444 635 (2018: R19 603 058) to restore the landfill site at the end of its useful life, estimated to be 17 years from the date of revaluation. The amount of rehabilitation is dependent on future costs technology, inflation and site consumption. The discount rate of the provision was 8.085% (2019: 8.5%).

The financial implication of rehabilitating the landfill site was determined by the independent practitioner engineer Zin Metalworx.

The date on which Zin Metalworx valued landfill sites was 30 June 2020. The landfill sites are revalued every four years.

During the financial period there was a change in rehabilitation cost for Mbazwana and Thandizwe Landfill Site, that resulted in an increase in the underlying assets and provision of R462 177 and R582 911 respectively.

Skhemelele Landfill Site is in the process of being rehabilitated. Detailed design for the closure of the site as laid out in the Environmental Management Programme (EMPr). The closure and rehabilitation activities will comply with the Minimum Requirements for Waste Disposal by Landfill (Second Edition, 1998). In compliance with the requirements for a communal landfill, during closure of the existing landfill the following activities will be conducted:

Closure

Depending on the volume of waste on site, the waste must be consolidated and taken to a licensed landfill facility or the waste must be consolidated and capped on site;

- Reshaping and recontouring of borrow pits so that they are no longer a safety hazard must take place;
- Placement of a "no dumping" notice at the site; and,
- Closing and locking the gate to the site so that no illegal dumping can take place.

13. Payables from exchange transactions

Trade payables	840 155	1 915 206
Accrued leave pay	5 251 051	4 181 003
Accrued bonus	1 433 721	1 306 096
Retention Creditors	5 618 187	4 415 734
Other creditors	93 801	77 730
Debtors with credit balance	19 358	82 236
Jozini	190 992	997 326
	13 447 265	12 975 331

Ageing trade and other payables

Current (0 -30 days)	840 155	1 915 206
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14. VAT payable

VAT payables	404 301	3 809 162
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15. Refuse removal

Refuse removal	624 360	583 201
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16. Commission received

Motor licensing	91 728	80 323
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Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
17. Fines, Penalties and Forfeits		
Traffic Fines	876 900	1 567 950
18. Licences and permits (exchange)		
Traffic income	2 291 920	3 567 590
19. Lease rentals on operating lease		
Equipment		
Contractual amounts	2 901 127	2 136 576
20. Rental Income		
Rental income	375 615	367 907
Other income	(27)	-
	375 588	367 907
21. Other income		
Business Licensing	1 400	998
Sundry income	144 523	137 046
Library Income	29 002	35 926
Tender Documents	224 781	107 131
Property clearance revenue	3 600	1 950
Building plans revenue	5 478	15 391
Insurance refund	-	252 153
Fire Services	-	9 400
Law enforcement fines	3 000	-
Arts and Culture refund	595 000	-
	1 006 784	559 995
22. Investment revenue		
Interest revenue		
Bank	3 790 610	4 802 233
Investments	884 547	-
	4 675 157	4 802 233

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
23. Property rates		
Rates		
Residential	655 578	334 700
Commercial	6 407 035	11 173 817
State	14 269 640	12 587 001
Property trust	1 431 000	1 457 500
Less: Income forgone	(1 649 242)	(5 589 999)
	21 114 011	19 963 019
Valuations		
Residential / Hospitality	131 200 000	93 500 000
Commercial	741 730 000	547 075 000
State	934 400 000	687 340 000
Municipality	76 100 000	300 000
Protected Area and Trust Land	736 900 000	736 900 000
Place of Worship	6 300 000	4 300 000
Public service infrastructure	1 570 000	-
	2 628 200 000	2 069 415 000

Property valuations is performed every 5 years. The last general valuation roll came into effect on 1 July 2019. Annual valuations are processed on an annual basis to take into account changes in individual property value due to alterations and subdivisions.

A tariff of R0,0025 (2019: R0,0025) is applied to property valuations of ITB to determine assessment rates. The billing remained constant from previous year.

Business Properties are billed at R0.0087 (2019: R0,01) per rand for a period. Hospitality will be included in this category.

Protected Area and Public Benefit Organisations are valued but exempt from billing.

The new general valuation was implemented on 01 July 2019.

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
24. Government grants and subsidies		
Operating grants		
Equitable share	166 017 000	145 676 000
Financial Management Grant	1 787 402	1 900 000
EPWP Grant	3 525 000	3 047 000
Library Grant	2 460 000	1 873 000
Youth Enterprise Programme Grant	-	1 000 000
Skhemelele Nodal	406 000	497 200
Disaster management grant	864 000	-
Town Planning Grant	481 252	5 408 095
Environmental Grant	-	199 997
Sports Grounds	29 000	16 500
Border Development	251 040	1 060 720
	175 820 694	160 678 512
Capital grants		
Municipal Infrastructure Grant	20 646 756	34 235 664
	196 467 450	194 914 176
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	30 450 450	49 238 176
Unconditional grants received	166 017 000	145 676 000
	196 467 450	194 914 176
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
COGTA -Small Town Rehabilitation		
Balance unspent at beginning of year	162 260	162 260
Conditions still to be met - remain liabilities (see note 11).		
Spatial Development		
Balance unspent at beginning of year	100 000	100 000
Conditions still to be met - remain liabilities (see note 11).		
Project Consolidate Manguzi		
Balance unspent at beginning of year	17 307	17 307
Conditions still to be met - remain liabilities (see note 11).		
Library Grant		
Current-year receipts	2 460 000	1 873 000
Conditions met - transferred to revenue	(2 460 000)	(1 873 000)
	-	-

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
24. Government grants and subsidies (continued)		
Urban Development Grant		
Balance unspent at beginning of year	907 195	907 195
Conditions still to be met - remain liabilities (see note 11).		
Manzengwenya Project		
Balance unspent at beginning of year	7 500	7 500
Conditions still to be met - remain liabilities (see note 11).		
Municipal Assistance Program (MAP)		
Balance unspent at beginning of year	251 168	251 168
Conditions still to be met - remain liabilities (see note 11).		
Phelandaba Development Grant		
Balance unspent at beginning of year	178 600	178 600
Conditions still to be met - remain liabilities (see note 11).		
Nhlange Lake Restaurant		
Balance unspent at beginning of year	5 600	5 600
Conditions still to be met - remain liabilities (see note 11).		
Kwa Tembe Concrete Project		
Balance unspent at beginning of year	86 111	86 111
Conditions still to be met - remain liabilities (see note 11).		
Mbazwana and Manguzi Hubs		
Balance unspent at beginning of year	160 000	160 000
Conditions still to be met - remain liabilities (see note 11).		
MIG		
Balance unspent at beginning of year	29 336	-
Current-year receipts	34 918 000	34 265 000
Conditions met - transferred to revenue	(20 646 756)	(34 235 664)
	14 300 580	29 336
Conditions still to be met - remain liabilities (see note 11).		
FMG		
Balance unspent at beginning of year	-	-
Current-year receipts	1 900 000	1 900 000

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
24. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	(1 787 402)	(1 900 000)
	112 598	-
Conditions still to be met - remain liabilities (see note 11).		
EPWP		
Balance unspent at beginning of year	-	-
Current-year receipts	3 525 000	3 047 000
Conditions met - transferred to revenue	(3 525 000)	(3 047 000)
	-	-
Tourism and Environmental Affairs Grant		
Balance unspent at beginning of year	4	-
Current-year receipts	-	200 000
Conditions met - transferred to revenue	(4)	(199 996)
	-	4
Town planning grant		
Balance unspent at beginning of year	591 905	-
Current-year receipts	-	6 000 000
Conditions met - transferred to revenue	(481 252)	(5 408 095)
	110 653	591 905
Conditions still to be met - remain liabilities (see note 11).		
Skhemelele nodal grant		
Balance unspent at beginning of year	502 800	-
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	(406 000)	(497 200)
	96 800	502 800
Conditions still to be met - remain liabilities (see note 11).		
Border Development		
Balance unspent at beginning of year	1 389 280	1 250 000
Current-year receipts	-	1 200 000
Conditions met - transferred to revenue	(251 040)	(1 060 720)
	1 138 240	1 389 280
Conditions still to be met - remain liabilities (see note 11).		
Sports ground		
Balance unspent at beginning of year	33 500	-
Current-year receipts	-	50 000
Conditions met - transferred to revenue	(29 000)	(16 500)
	4 500	33 500
Conditions still to be met - remain liabilities (see note 11).		

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
24. Government grants and subsidies (continued)		
Disaster management grant		
Current-year receipts	864 000	-
Conditions met - transferred to revenue	(864 000)	-
	-	-
25. Public contributions and donations		
Public contributions and donations	-	812 637
Conditions still to be met - remain liabilities (see note 11)		
Provide explanations of conditions still to be met and other relevant information		

Umhlalabuyalingana Local Municipality

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Figures in Rand	2020	2019
26. Employee related costs		
Basic salary	49 816 793	47 657 488
Cellphone Allowance	903 310	739 166
Performance Bonus	570 051	1 320 440
Medical aid - company contributions	2 290 026	1 962 783
UIF	360 195	355 318
Leave pay provision charge	1 222 271	816 602
Overtime payments	2 393 468	1 534 501
Long-service awards	542 183	393 268
13th Cheques	2 771 436	2 489 539
Acting allowances	45 380	510 291
Car allowance	3 816 000	2 832 000
Standby Allowance	1 010 402	529 005
GroupLife Insurance	497 942	471 783
SALGBC - Levies	17 186	16 091
Rural Allowance	633 153	508 430
Pension	4 997 589	4 423 247
	71 887 385	66 559 952
Remuneration of Municipal Manager (NP Gamede)		
Annual Remuneration	1 169 406	1 176 952
Car Allowance	180 000	180 000
Performance Bonuses	134 887	140 147
Contributions to UIF, SDL, Levies and Pension Funds	28 727	30 342
Cellphone allowance	32 400	32 400
Rural Allowance	116 941	119 536
	1 662 361	1 679 377
Remuneration of Chief Finance Officer (N.P.E Myeni)		
Annual Remuneration	997 316	997 316
Car Allowance	162 000	162 000
Performance Bonuses	116 614	116 398
Contributions to UIF, Medical and Pension Funds	24 936	28 290
Cellphone allowance	27 600	27 600
Rural Allowance	108 798	108 798
	1 437 264	1 440 402
Remuneration of Corporate and Human Resources (N.V.F Msane)		
Annual Remuneration	997 316	997 316
Car Allowance	162 000	162 000
Performance Bonuses	116 614	116 398
Contributions to UIF, Medical and Pension Funds	24 923	28 355
Cellphone allowance	27 600	27 600
Rural Allowance	108 798	108 798
	1 437 251	1 440 467
Remuneration of Community Director (S.Shange)		
Annual Remuneration	835 477	227 354
Car Allowance	162 000	-
Performance Bonuses	117 913	-
Contributions to UIF, Medical and Pension Funds	23 859	-
Rural Allowance	83 548	45 333
Cellphone	14 400	-

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
26. Employee related costs (continued)	1 237 197	272 687
Remuneration of Director Technical Services (M.S Qwabe)		
Annual Remuneration	864 397	864 397
Car Allowance	162 000	162 000
Performance Bonuses	103 347	103 131
Contributions to UIF, Medical and Pension Funds	170 639	180 439
Cellphone allowance	27 600	27 600
Rural Allowance	94 298	94 298
	1 422 281	1 431 865

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
27. Remuneration of Councillors		
Mayor	905 529	872 239
Deputy Mayor	733 088	706 600
Exco Members	2 022 965	1 382 704
Speaker	733 088	706 600
Councillors	2 543 414	3 490 181
Travel Allowance	4 533 914	3 902 675
Cellphone and data Allowance	1 554 000	1 411 000
	13 025 998	12 471 999
Mayor Cllr N.S Mthethwa		
Annual Remuneration	622 881	604 894
Car Allowance	207 627	201 631
Backpay	30 351	21 224
Cellphone Allowance	40 800	40 800
Mobile data	3 600	3 600
SDL	6 923	8 308
	912 182	880 457
Deputy Mayor Cllr F.G Mlambo		
Annual Remuneration	498 306	483 916
Car Allowance	166 102	161 305
Backpay	24 281	16 979
Cellphone Allowance	40 800	40 800
Mobile data	3 600	3 600
SDL	5 365	6 613
	738 454	713 213
Speaker Cllr B.T Tembe		
Annual Remuneration	498 306	483 916
Car Allowance	166 102	161 305
Cellphone Allowance	40 800	40 800
Data Allowance	3 600	3 600
Backpay	24 281	16 979
SDL	5 302	6 550
	738 391	713 150
Exco Members Cllr B.N Ntsele		
Annual Remuneration	260 620	253 094
Car Allowance	86 873	84 365
Backpay	9 525	8 881
SDL	3 385	4 071
Data Allowance	3 600	3 600
Cellphone allowance	40 800	40 800
	404 803	394 811
Exco Member Cllr S.N Tembe		
Annual Remuneration	260 620	253 094
Car Allowance	86 873	84 365
Cellphone Allowance	40 800	40 800
Data Allowance	3 600	3 600
Backpay	9 525	8 881
SDL	3 203	3 911
	404 621	394 651

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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27. Remuneration of Councillors (continued)

Exco Member Cllr M.D Mathenjwa

Annual Remuneration	260 620	253 094
Car Allowance	86 873	84 365
Cellphone Allowance	40 800	40 800
Data Allowance	3 600	3 600
Backpay	9 525	8 881
SDL	3 251	3 937
	404 669	394 677

Exco Member Cllr Z.M Mhlongo

Annual Remuneration	260 620	253 094
Car Allowance	86 873	84 365
Cellphone Allowance	40 800	40 800
Data Allowance	3 600	3 600
Backpay	9 525	8 881
SDL	3 331	3 890
	404 749	394 630

Exco Member Cllr M.Z Mhlongo

Annual Remuneration	260 620	253 094
Car Allowance	86 873	84 365
Cellphone Allowance	40 800	40 800
Data Allowance	3 600	3 600
Backpay	9 525	8 881
SDL	3 530	4 121
	404 948	394 861

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker are full-time. Each is provided with an office at the cost of the Council.

The Executive Mayor, Deputy Mayor and Speaker each has been allocated with two full time bodyguards.

The Mayor has been allocated with the Council owned vehicles for official duties.

The Executive Mayor has two full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

28. Depreciation and amortisation

Property, plant and equipment	22 729 799	22 435 740
Intangible assets	313 988	314 331
	23 043 787	22 750 071

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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29. Impairment of assets

Impairments

Impairment Fixed Assets	1 427 656	4 158 190
Certain Property, Plant and Equipment were considered for Impairment in the current period due to lack of maintenance in some areas of Sportsfield. Impairment reversal was also considered on Manguzi Sportfield. The recoverable amount of the asset was based on its fair value less costs to sell.		

The main classes of assets affected by impairment losses are:

Sportsfields

There's lack of maintenance on the local sportfields. It has been visible through verification that soccer fields are not maintained and possibly vandalism on the facilities. Impairment was recommended until facilities are maintained

Municipality has assessed infrastructure assets for impairment. The impairment assessment takes into account both external and internal source of information that indicated that these assets to be impaired. With the advent of the COVID-19 we considered:

- evidence of physical damage
- significant long term changes that have occurred in the way or extent to which the assets is used

30. Finance costs

Interest overdue accounts	336 620	3 384
Other interest	1 968 814	1 282 357
	2 305 434	1 285 741

31. Debt impairment

Contributions to debt impairment provision	2 804 847	6 259 525
Bad debts written off	3 169 734	186 488
	5 974 581	6 446 013

32. Asset Write Off

Property Plant and Equipment write off	2 539 836	671 628
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Spray lights and Netball courts were completely demolished paving way for renovation of Manguzi Multipurpose complex.

33. Contracted services

Outsourced Services

Administrative and Support Staff	268 892	371 266
Burial Services	167 590	195 501
Catering Services	11 216 275	8 014 307
Clearing and Grass Cutting Services	1 069 487	244 800
Internal Auditors	3 738 630	2 057 770
Medical Waste Removal	270 000	-
Professional Staff	514 746	322 163
Refuse Removal	345 567	197 116
Researcher	1 062 155	432 362
Security Services	8 319 370	7 765 848
Drivers Licence Cards	780 847	783 781

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
33. Contracted services (continued)		
Consultants and Professional Services		
Business and Advisory	3 932 697	4 849 530
Infrastructure and Planning	676 742	2 554 467
Legal Cost	1 264 449	922 358
Contractors		
Aerial Surveillance	201 600	213 816
Artists and Performers	500 000	822 482
Catering Services	179 300	526 659
Employee Wellness	154 500	-
First Aid	63 160	60 918
Fire Services	34 672	30 913
Graphic Designers	137 900	-
Maintenance of Buildings and Facilities	708 745	928 164
Maintenance of Equipment	3 805 542	3 261 999
Maintenance of Roads	4 050 587	3 995 525
Medical Services	4 500	83 182
Pest Control and Fumigation	1 672 367	198 400
Photographer	98 800	60 000
Tracing Agents and Debt Collectors	-	5 250
Transportation	681 500	-
Sports and Recreation	651 850	346 398
Stage and Sound Crew	296 790	650 900
	46 869 260	39 895 875

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
34. Operational cost		
Advertising	383 293	1 057 643
Auditors remuneration	1 735 787	1 729 591
Bank charges	108 196	125 705
Entertainment	67 200	-
Fines and penalties	226 523	-
Gifts and promotions	5 952 241	6 470 653
Hire charges	16 766 112	12 968 044
Insurance	543 478	580 423
Community development events	2 416 390	1 272 891
IT expenses	1 736 626	1 180 503
Fleet expense	72 037	207 440
Marketing	26 394	164 260
Promotion and sponsorship	557 999	190 208
Medical expenses	6 120	-
Motor vehicle expenses	38 559	-
Fuel and oil	2 156 297	2 296 627
Postage and courier	96 146	1 871
Printing and stationery	211 099	572 128
Gender Awareness	62 800	-
Software expenses	238 230	1 511 959
Telephone and fax	5 860	25 571
Transport	353 500	71 050
Training	925 446	1 119 872
Traveling and accommodation	2 426 629	3 941 590
Water and electricity	1 661 409	980 479
Electricity connections	-	285 056
Uniforms	325 873	661 110
Tourism development	5 460	-
Skills development levy	621 751	696 174
Travel allowance	3 222 824	3 351 424
Ward committees	2 442 800	2 511 793
Burial support	2 000	195 024
Caretaker remuneration	-	16 500
Landfillsite cost	-	1 551 571
Wellness for employees	-	180 274
	45 395 079	45 917 434

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Figures in Rand	2020	2019
35. Transfers and subsidies		
School support	146 221	121 800
Town improvement	-	402 520
Fire fighting	-	719 630
Social Relief	2 690 984	1 628 551
Bereavement assistance	1 516 123	-
Disaster supplies	1 501 230	-
	5 854 558	2 872 501

The COVID-19 pandemic has had a significant impact on the day to day lives of individuals and organizations at large around the world. In South Africa, the threat of COVID-19 necessitated Government to declare it a National Disaster and since then Government has implemented measures to mitigate the threat of COVID-19 on the lives of the citizens as well as on the economy.

During this lockdown period:

- construction and maintenance activities have been halted;
- services have been limited where public facilities have closed for prolonged or short periods of time;
- there has been a demand for medical services, water, sanitation and temporary settlements from government;
- revenue and debt collections have decreased because people are unable to work thereby increasing the risk of non-payment of services;

Since the COVID-19 was declared a national disaster, there have been numerous measures put in place to curb its rapid spread and the provision of assistance to those less fortunate. In response to the COVID-19 pandemic, municipalities have incurred increased expenditures, namely:-

- Purchase of personal protective equipment such as masks
- Hygiene items such as sanitisers

Disaster supplies

Items of disaster supplies were acquired during the pandemic to assist curb the spread of the virus. These items include: Reflector jackets, Disaster relief tents, LED lamps, First Aid kits, Blankets, Chemicals and Overalls.

Bereavement assistance

With the compliance requirements to Disaster Management Act communities were restricted with movements and had to comply with the said regulations. Municipality had to intervene and assist in a number of areas to bereave affected communities.

Assistance ranged from arranging of hearse, buying coffins, provision of food and transportation of deceased.

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Figures in Rand	2020	2019
36. Cash generated from operations		
Surplus	1 180 471	19 575 594
Adjustments for:		
Depreciation and amortisation	23 043 787	22 750 070
(Profit)/Loss on sale of property, plant and equipment	-	1 067 852
Donated assets	-	(812 361)
Assets write off	2 539 836	673 572
Impairment deficit	1 427 656	4 158 190
Debt impairment	5 974 581	6 446 013
Operating lease liability	(4 654)	16 064
Employee benefit provision	145 231	428 939
Movements in provisions	2 887 054	4 749 128
Other movements	(4 214 822)	(527 281)
Changes in working capital:		
Inventories	(769)	(62 488)
Receivables from exchange transactions	(617 305)	244 176
Other receivables from non-exchange transactions	2 821 164	(9 153 491)
Payables from exchange transactions	471 935	518 137
VAT	(3 404 861)	(889 894)
Unspent conditional grants and receipts	13 216 546	1 096 825
INEP Liability	(945 469)	5 000 163
	44 520 381	55 279 208
37. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• KwaMabila Blacktop Access Road	2 163 697	-
• Posini to Library Road	909 762	117 005
• Manzengwenya Gravel Road	3 957 331	-
• Manguzi Stormwater and walkway	-	727
• Skhemelele community market	-	591 177
• Mashabane Access Road	1 536 170	-
• Moses Zikhali Access Road	353 124	-
• IYK Tarred Road	498 302	-
• Mlamula Jikijela Electrification	74 613	-
• Kwashodi Electrification	790 993	-
	10 283 992	708 909
Total capital commitments		
Already contracted for	10 283 992	708 909
Authorised operational expenditure		
This committed expenditure relates to infrastructure assets and will be financed by available bank facilities, existing cash resources, funds internally generated, or grants		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	551 028	1 539 022
- in second to fifth year inclusive	-	542 217
	551 028	2 081 239

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of two years and rentals vary in terms of a contract of the lease. Certain leases are subject to escalation at a rate of 5% over the lease period. No restrictions are imposed by lease arrangements.

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38. Contingencies

38.1. Bhokusisa Derrick Zungu and 26 Others

This matter is still pending at the arbitration and will be heard again on 11 November 2020(subject to written confirmation by the bargaining council). There has been several sittings but we believe that the matter will be finalised in November 2020.

Legal costs are estimated at R 180 000

The applicants were employed on a fixed term contract basis. They dispute the limited duration contract and claim to have been employed on an indefinite basis. Their claim is spurious and bound to fail. Their claim is not ascertainable even if they were to succeed.

38.2 Department of Labour

This is the potential liability for assessment to be done by Department of Labour on returns due in terms of Compensation for Occupational Injuries and Disease Act (COIDA)The Department of Labour is claiming R 99 206 560.83 from the Municipality in respect of outstanding returns in terms of Compensation of Occupational Injuries and Diseases Act (COIDA). The Municipality has applied for the reassessment of the amount but the Commissioner for Compensation of Occupational Injuries and Diseases declined to accept the bid for reassessment.

Negotiations are ongoing with Commissioner and the and Labour Court for re-assessment. Legal Cost will amount to R800 000.

39. Related parties

Management remuneration
Council remuneration

Refer to note 26
Refer to note 27

40. Change in estimate

Property, plant and equipment

The useful life of certain plant was estimated in 2018 to be 20 years. In the current period management have revised their estimate to 30 years. The effect of this revision has decreased the depreciation charges for the current and future periods.

The effect of estimate for the future amount is impracticable as assets are not revalued. Its impossible to determine the change in estimate effect.

The estimated cost of Mbazwana and Thandizwe Landfill Sites was revised in the financial year under review. The effect of this revision has resulted in an increase in the underlying assets with the corresponding increase in Landfill Site Provision. Increased the depreciation charges for the current period was R104 509 and the asset increased by R1 045 088

The discount rate was estimated to be 8.085%(2020) a change from 8.085%(2019)

41. Comparatives reclassification

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year restatement:

Statement of financial position

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Figures in Rand		2020	2019	
41. Comparatives reclassification (continued)				
2019				
	Note	As previously reported	Re-classification	Restated
INEP liability		-	5 000 163	5 000 163
Unspent conditional grant and receipt		9 422 729	(5 000 163)	4 422 566
		9 422 729	-	9 422 729

Cash flow statement

2019

	Note	As previously reported	Restated
Changes in working capital			
INEP liability		-	5 000 163
Unspent conditional grant and receipts		6 096 988	1 096 825

Reclassification Operational cost

Operational cost note has been reclassified to accurately report expenditure by nature. The effects of the reclassification is as follows.

Statement of financial performance note:

Operational cost	Previously reported	After reclassification
Events	1 272 871	-
Community development	-	1 272 871
Tracker	43 424	-
Computer expenses	511 925	-
Vehicle licence	101 773	-
Honoraria voluntary programme	30 000	-
Drivers license	59 171	-
Voluntary workers	16 500	-
Caretaker stipends	-	16 500
Car rental	859 020	-
Connection fee	54 550	-
Transportation	159 500	-
Tollgates	27 595	-
Travel air	92 466	-
Administration	176 852	-
Electric metres	285 056	-
Wellness	-	180 274
IT expenses	-	1 180 503
Fleet expense	-	207 440
Marketing	-	164 260
Promotion and sponsorship	-	190 208
Transport	-	71 050
Burial support	-	195 024
	3 690 703	3 478 130

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42. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

Current liabilities

Trade and other payables from exchange transactions	13 447 265	12 975 331
Unspent conditional grants	17 639 112	4 422 566
	31 086 377	17 397 897

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer debtors comprise of a large number of ratepayers dispersed accross different sectors and geographical areas. Management evaluated credit risk relating to customers on an ongoing basis. Credit exposure is managed by application of the municipality's policies regarding credit control and debt collection. The municipality has made a provision for doubtful debts in accordance to its policies. The carrying amount of financial assets is the maximum exposure to credit risk in relation to these assets.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	30 June 2020	30 June 2019
Receivables from exchange transactions	719 403	600 047
Receivables from non-exchange transactions	10 015 480	15 127 542
Cash and cash equivalents	64 348 251	49 652 113

Refer to note 8 for ageing of receivables as well as note 10 for further disclosure of cash and cash equivalents.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

43. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 1 180 427 and that the municipality's total assets exceed its liabilities by R 320 071 299.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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43. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the municipality for future periods.

During April 2020, large number municipality major trade customers closed businesses following the outbreak of COVID-19 and related global responses have caused material disruptions to businesses leading to an economic slowdown. Of the R47 713 658 receivables from these customers, the municipality expects to recover less than R10 015 480. The allowances for expected credit losses for these receivables was R39 923 663 as at 30 June 2020.

There are no significant changes in the extent or manner in which the assets are used or is expected to be used. Plant and Machinery assets idled for a period of two months and that was considered not significant period for productive capacity.

44. Unauthorised expenditure

Opening balance as previously reported	-	6 313 535
Opening balance as restated	-	6 313 535
Less: Amount written off - prior period	-	(6 313 535)
Closing balance	-	-

Council approved that unauthorised expenditure be written off

45. Fruitless and wasteful expenditure

Opening balance as previously reported	3 384	13 081
Opening balance as restated	3 384	13 081
Add: Expenditure identified - current	338 170	3 384
Less: Amount written off - current	-	(13 081)
Closing balance	341 554	3 384

Council approved fruitless and wasteful expenditure to be written off

46. Irregular expenditure

Opening balance as previously reported	1 781 250	12 503 193
Opening balance as restated	1 781 250	12 503 193
Add: Irregular Expenditure - current	1 473 380	1 781 250
Less: Amount written off - current	(1 473 380)	-
Less: Amount written off - prior period	(1 781 250)	(12 503 193)
Closing balance	-	1 781 250

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46. Irregular expenditure (continued)

Amounts written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of 3 254 630 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 083 200	713 680
Amount paid - current year	(1 083 200)	(713 680)
	-	-

Audit fees

Current year subscription / fee	1 735 787	2 057 770
Amount paid - current year	(1 735 787)	(2 057 770)
	-	-

PAYE and UIF

Current year subscription / fee	13 404 794	12 181 316
Amount paid - current year	(13 404 794)	(12 181 316)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	7 274 114	3 913 423
Amount paid - current year	(7 274 114)	(3 913 423)
	-	-

VAT

VAT payable	404 301	3 809 162
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

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47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Busisiwe Tembe	4 190	8 177	12 367
Simon Nxumalo	765	809	1 574
	4 955	8 986	13 941
30 June 2019	Outstanding less than 90 days	Outstanding more than 90 days	Total
Busisiwe Tembe	9 500	-	9 500
Simon Nxumalo	20 146	26 972	47 118
	29 646	26 972	56 618

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

48. Actual operating expenditure versus budgeted operating expenditure

48.1 Licences and permits actual income is 57% below the budget because the traffic station was closed during the month of October and November due to municipal workers strike, again traffic station operations were also closed from the month of February till August due to community strikes that happened in February and National Lockdown due to COVID-19 virus outbreak.

48.2 Commissions received is above the budget because the budget was understated

48.3 Interest on investments actual income is 32% below the budget because of COVID-19 virus outbreak that also affected the country's economy and interest rates

48.4 Interest on outstanding debtors is 26 % below the budget because of COVID-19 virus outbreak and the council decided to give its rates payers (business category)

48.5 Other revenue is 39% below the budget because of COVID-19 virus outbreak and the closure of the country on its operations that affected all economic sectors

48.6 Traffic fines actual revenue is 71% below the budget because the traffic station was closed during the month of October and November due to municipal workers strike, again traffic station operations were also closed from the month of February till August due to community strikes that happened in February and National Lockdown due to COVID-19 virus outbreak.

48.7 Finance charges actual expenditure is 10% above the budget because SARS penalties for late payments of PAYE and SDL contributions and ESKOM late payments, it also includes landfill sites provisions expense

48.8 Operating lease expense is 13% above the budget because of new contracts that the municipality entered into, but the budget was based on the fact that operating lease contracts were coming to an end in this financial year.

48.9 Transfers and subsidies expenditure is 14% above the budget because there was an increase in provision of social relief programmes due to the corona virus outbreak

48.10 Capital expenditure is 38% below the budget because the municipal offices were not operational during the month of October and November due to municipal

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49. Actual capital expenditure versus budgeted capital expenditure

48.1 Capital expenditure is 31% below the budget because the municipal offices were not operational during the month of October and November due to municipal

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The deviations for the current year, with the prior years' deviation shown for comparison, are summarised below:

Recommended supplier	298 322	539 033
Emergencies	1 153 456	172 607
	1 451 778	711 640

51. Budget differences

Material differences between budget and actual amounts

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51. Budget differences (continued)

1. Service charges

Service charges was adjusted down because budget was overstated because the basis of its calculation was base on the wrong number of customers to be serviced.

2. Licences and permits

Licences and permits was adjusted up because of the high number of people who come from far places to get services of umhlabuyalingana

3. Commission received

Commission receive was adjusted up because of the amount we already have received as commission from the department of transport.

4. Rental income

Rental income was adjusted down because it was overstated in the budget because other market stalls were not being rented out because they were not in good condition.

5. Interest on investment

Interest on investment was adjusted up because we anticiapted that there will be more interest received since there were more funds in the bank accounts

6. Interest on outstanding debtors

Interest on outstanding debtors was adjusted up because of commercial property rates debtors not paying for their accounts in time was high

7. Other revenue

Other revenue was adjusted up because of the refunds received from department of Arts and Culture

8. Property rates

Property rates was adjusted down because budget was overstated and it did not include rebates

9. Government grants

Government grants were adjusted up because it was supposed to include rollover funds and new allocation of COVID-19 grant

10. Traffic fines

Traffic fines were adjusted up because it was planned that there will be more road blocks to be conducted which will increase revenue base.

11. Employee related costs

Employee related costs were adjusted down because of the job evaluation process that was going to increase salary costs when it is implemented

12. Debt impairment

Debt impairment was adjusted down because it was overstated in the budget although there was an increase in interest on outstanding debtors

13. Finance charges

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51. Budget differences (continued)

Finance charges was adjusted up because of the increase in land fill site provision

14. Contracted services

Contracted services was adjusted up because it was understated in the budget

15. Transfers and subsidies

Transfers and subsidies was adjusted up because of increase in social relief programmes due to COVID-19

16. Operating lease

Operating lease was adjusted up because of new operating lease contracts entered in to by the municipality after the contract we had were coming to an end.

17. Inventory consumed

Inventory consumed was adjusted up because more inventory items were to be procured after the declaration of COVID-19 disaster

18. Operational costs

Operational costs was adjusted up because it was understated in the budget

Income and expenditure variance

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51. Budget differences (continued)

1. Licences and permits

Licences and permits decreased by 56% from the prior year because the traffic station had to be closed in October and November due to municipal workers strike

2. Commissions received

Commissions received increased by 12% from the prior year actual because

3. Other income

Other income decreased by 35% from the prior year actual because there were no insurance refunds this year

4. Interest on outstanding debtors

Interest on outstanding debtors decreased by 128% because the council took a resolution to give hospitality debtors a discount relief of 35% and to write off

5. Public contributions and donations

Public contributions and donations decreased by 100% because there were no donation received in this financial year.

6. Fines, penalties and forfeits

Fines, penalties and forfeits decreased by 56% because of the municipal workers strike that happened in October and November, and another community strike

7. Reversal of impairments

Reversal of impairments decrease by 191% because only assets was affected by the impairment most assets were maintained in the current year which increased its

8. Finance costs

Finance costs increased by 44% from the prior year because of interest paid to SARS for late payment of PAYE contributions and increase in provision for land fill sites

9. Lease rentals on operating lease

Lease rental on operating lease increased by 27% because of new lease agreements signed by the municipality in this financial year

10. Inventory consumed

Inventory consumed increased by 21% from last year actual because the municipality had to purchase more cleaning materials in order to ensure safety of employees to avoid being infected by COVID-19 virus

11. Asset write off

Asset write off increased by 73% because they had to demolish netball court in order to construct Manguzi Multipurpose Hall

12. Transfers and subsidies

Transfers and subsidies increased by 61% because more social relief programs were implemented than the prior year to respond to the COVID-19 virus outbreak

13. Inventory COVID-19

Inventory COVID-19 increased by 100% when compared to prior year because COVID -19 virus outbreak started this

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51. Budget differences (continued)

financial year

52. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

Details of the arrangement(s) is as follows:

Municipality has entered into agreement to facilitate the expansion and rehabilitation of the electricity grid, the objective of this agreement is to enhance the Electrification Programme on long term national energy requirements that shall be met through clearly established national electrification principles, to ensure that resource allocation contributes to sustainable development and enhance empowerment to communities and to provide electricity to un electrified household.

Obligations of the municipality

The municipality shall:

- ensure compliance with all statutory requirements stipulated in the DoRA
- the municipality shall not spend any allocated funds in arears where they are not licenced to distribute electricity
- manage the programme as well as design and implementation of those projects that form the objective of this agreement
- take all reasonable steps necessary to ensure the programme is implemented effectively and effeciently

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52. Accounting by principals and agents (continued)

Entity as agent

Liabilities and corresponding rights of reimbursement recognised as assets

Liabilities incurred on behalf of the principal(s) that have been recognised by the municipality are listed below.

Corresponding rights of reimbursement that have been recognised as assets are listed below.

COGTA Electrification

Balance unspent at beginning of year	5 000 000	-
Current-year receipts	-	5 000 000
Liability recognised	(1 410 454)	-
	3 589 546	5 000 000

INEP Electrification

Balance unspent at beginning of year	163	-
Current-year receipts	19 000 000	22 000 000
Liability recognised	(18 535 014)	(21 999 837)
	465 149	163

Projects undertaken by municipality

Ward 4 Electrification	-	2 338 700
Mahlungulu Phase 2 Electrification	798 943	2 342 640
Mahlungulu Phase 3 Electrification	-	2 337 555
Kwahlomula Electrification	-	8 665 039
Kwahlomula Electrification	-	1 686 991
Mkhindini Phase 2 Electrification	-	3 053 046
Mboza Phase 2 Electrification	-	1 575 866
Jikijela Electrification	10 435 682	-
Manguzi Electrification	7 300 389	-
	18 535 014	21 999 837

Projects completed and transferred

Mkhindini Electrification	-	7 845 856
Mahlungulu Electrification	-	7 916 820
	-	15 762 676